

**EXHIBIT 46**  
**(Filed Under Seal)**

Company Name: Smithfield Foods

Company Ticker: SFD US

Date: 2010-12-09

Event Description: Q2 2011 Earnings Call

Market Cap: 3,228.96

Current PX: 19.45

YTD Change(\$): +4.26

YTD Change(%): +28.045

Bloomberg Estimates - EPS

Current Quarter: 0.509

Current Year: 1.863

Bloomberg Estimates - Sales

Current Quarter: 3127.889

Current Year: 12204.538

## Q2 2011 Earnings Call

### Company Participants

- Keira Lombardo, Director, Investor Relations
- C. Larry Pope, President and Chief Executive Officer
- Robert W. Manly, Chief Financial Officer and Executive Vice President
- Keira Ullrich, Director of Investor Relations

### Other Participants

- Christine McCracken
- Akshay Jagdale
- Ryan Oksenhendler
- Farha Aslam
- Diane Geissler
- Heather Jones
- Lindsay Mann
- Timothy Ramey
- Christina McGlone
- Vincent Andrews
- Bryan Hunt
- Reza Vahabzadeh

## MANAGEMENT DISCUSSION SECTION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Smithfield Foods Fiscal 2011 Second Quarter Earnings Call. [Operator Instructions] Later we will conduct a question-and-answer session. Instructions will be given at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I'd now like to turn the conference over to Keira Lombardo. Please go ahead.

### Keira Lombardo, Director, Investor Relations

Good morning. Welcome to the conference call to discuss Smithfield Foods' fiscal 2011 second quarter results. We would like to caution you that in today's call there may be forward-looking statements within the meaning of federal securities laws. In light of the risks and uncertainties involved we encourage you to read the forward-looking information section of the company's 10-K for fiscal year 2010. You can access the 10-K and our press release on our Web site at [www.smithfieldfoods.com](http://www.smithfieldfoods.com).

On our call are Larry Pope, President and Chief Executive Officer, and Bo Manly, Chief Financial Officer. This is Keira Lombardo, Director of Investor Relations.

Larry will begin our call this morning with a review of operations followed by Bo who will review the company's financial results. Then Larry will provide our outlook for the future, after which the line will be open for questions.

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Larry?

## C. Larry Pope, President and Chief Executive Officer

Thank you very much, Keira, and thank you ladies and gentlemen for dialing in. If I forget to say it, I hope you had a nice Thanksgiving, and we wish you a Merry Christmas as we approach the better part of the holiday season and don't forget to buy your Smithfield ham.

Boy, what the difference in a 2% drop in the production and hog raising around the world does for this business. It is truly a different day in Smithfield, and I am thrilled to be here this morning. I turned the clock back some two years, and we were reporting to you a \$55 million loss as income from continuing operations, and then last year we were reporting a \$73 million loss from continuing operations, and this morning I am extremely pleased to report to you an over \$200 million profit from continuing operations. So this business has turned and turned very hard.

I'm sure you saw that it's a record second quarter. As well importantly it is a record quarter for the company in total regardless of any quarters. It is something we are extremely proud of although there is still substantial opportunity in here.

I must tell you that as I reflect over these last two years we had a good strategy, and we were trying to implement and roll that strategy forward as we had from two years prior to that with our packaged meats. As we struggled with the losses on our live production side of the business, we knew that the meat business was being propelled forward in a big way. This is our third year in a row that we're reporting record quarter in that segment of the business, even in spite of the fact that live hog prices have moved up dramatically, even in spite of the fact that the raw material costs associated with the manufacturing of these packaged meats has moved up dramatically, we are still producing very good numbers.

No question, this quarter has been driven by strong profitability on the fresh pork side of the business. The rest of our competition has already reported their numbers. You've seen that it's an industry-wide situation. They were all benefiting from these reduced supplies and the opportunities on the export markets have been very good for the industry, more so for the industry than for us. We shut down the Sioux City plant here, and our available raw material product to go in the export markets are not as big as they were in the past but that continues to be a very good part of the business for us. Thank goodness for a weak dollar policy coming out of Washington D.C. And from our standpoint, I don't see anything on the horizon that's going to change that.

I think you can see that the freezer stock levels for both pork and beef are down significantly. That shows to the markets that they were cleaning up every day. That's what we refer to in the industry as cleaning up. As we kill these hogs, we are not putting the meat in the freezer. It is moving out. So the demand is there for this product both domestically and on an international basis. That's helping to keep this product priced where we can all make some pretty solid money on that fresh meat side of the business.

Chicken freezer stocks are up. I'm sure you know that. And that's a bit troubling to all of us, but that's just one piece of the business. From a beef and pork standpoint, it is fine. The other side, it is a sequentially better quarter than the first quarter and that again spells is something that we're extremely proud of.

Turning to the processed meats and packaged meat side of the business, I am very pleased with those in spite of the fact that our management teams are not. It is, once again, a sequential improvement in our processed meats numbers, both dollars and on a cents-per-pound basis in spite of the fact that much of the raw material that makes up these processed meats was up dramatically 30%, 40%, 50% and 100%. And some of you know that pork bellies went to \$1.50 this summer, which is more than historic levels and in spite of that we continued to maintain pricing discipline across that part of the business.

We did lose some volume. It is down 6% for the quarter. That is all in the retail segment. It is largely the result of us maintaining our focus on margin and pricing discipline, and we missed some of the cheap sale opportunities that were out there. We may have missed some. Maybe we should have priced it a little bit closer. I wouldn't have been reporting to you \$0.12, and we're focused on getting that volume back. But I think we have set a new paradigm for this

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organization in terms of where we will price our product and what we will sell and how we will maintain the margins.

This is not a new – this is not a new dynamic. This is just a continuation of this pricing discipline that the management teams of these operating companies have been putting in place now for several years.

This is the third record quarter in a row for the pork group. I think I can, with a fair if not a high degree of confidence, say the pork group will have another record year as we go through the second half of the year into fiscal 2011. I think the pork group at the end of that will record, I mean report another record year.

On the live production side of the business, you see the numbers are modest. That is, again, a sequential improvement over the first quarter. Second quarter was better. It's still just modest numbers and that continues to be the part of the business where we're focusing to improve our cost structure there. We've announced to you a cost improvement plan in place. Mr. Manly will talk a little bit more about that. But the fact is that's just on the beginning stages of starting to impact this bottom line positively. Bo and myself were in North Carolina at our farming headquarters just day before yesterday and spent the entire day on this part of the business understanding how to improve and where this cost improvement plan is going.

We were having conversations in this part of the business unlike any I've ever had in my 20 years. We are looking at whole new concepts and a way to make this business more competitive. We know we've got the challenges of higher priced grains, and we are dealing with it. I am very confident that the \$100 million that we think this cost improvement plan will benefit the bottom line. I'm very confident that our live production people will get that number. It will take a little bit of time but we will get it.

We do have – this sort of ties between here and my forward-looking part of the discussion. We do – we have continued to use the commodities market to maintain our cost structure and to take advantage of opportunities to lock in grains where we thought it was appropriate. We have been moderate in our hedging position, and we are using that as a tool to maintain our cost structure. It's something we think we will talk about as I go and look forward. But the fact is the hedging program and our use of the commodities market is an integral part of our managing of our costs on the live production side of the business.

Internationally, is largely a Poland and Mexico story; Spain has gotten a little bit better. Romania continues to be an opportunity although we were profitable because of hogs. What's so surprisingly sort of unique to me is the thought for three or four or five years we had a discussion internally about how much Poland was going to lose for the month or lose for the quarter. And we routinely would lose \$1 million to \$1.5 million a month. Now, with Poland only makes \$2 million or maybe even \$3 million, we look at ourselves and I called Derek and say what happened to the month? I mean that's the new set, the plateau that this business has moved to. Conversely, if our packaged meats business is less than \$0.10 a pound, we look at ourselves and say we had a horrible, horrible period in spite of the fact in the past those numbers were \$0.03, \$0.04 and \$0.05.

It's a changed – it's a new world in Smithfield, the dynamics have changed, our whole platform of understanding where the process structure has changed. On the financial side, Bo will speak to that pretty prominently and fully. But we continue to focus on delevering this balance sheet and improving our overall metrics, our credit metrics and our metrics within the balance sheet as well as our cost of capital. I'll just touch on it. Bo will give a lot more detail there. I think you have seen now that the Butterball business has been sold and closed, and then finally we are in the process of finalizing – I think we might have finalized this morning a settlement of the horrific fire that we had a year ago on the fourth of July weekend for our Patrick Cudahy facility. And so with our many insurance carriers, and that was done on a favorable basis to the company and the carriers, and I am pleased to say that our carriers understood the loss and in fact are supportive of the company. And we will go forward on a very cordial relationship in spite of the fact that, that was a very large claim to the industry. And one of the things we were striving to do is to make sure that we could continue to competitively buy insurance without having to set some new precedent level because of this loss. But we've done that, that's behind us, and that'll settle through the third quarter results.

Before I talk about looking forward, let me turn it over to Bo Manly. And Bo, why don't you give them a full update from your perspective?

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## Robert W. Manly, Chief Financial Officer and Executive Vice President

Thank you, Larry. Good morning, ladies and gentlemen. I'm also proud to report record second quarter net earnings of \$144 million, an improvement of \$170 million compared to the second quarter of fiscal 2010. And an EPS of \$0.86 per diluted share compared to a loss of \$0.17 in the same period a year ago, this follows record earnings in our first quarter as well. Net earnings for the first six months of fiscal 2011 were 220 million or \$1.32 per diluted share.

The drivers of these results are strong domestic and international fundamentals that Larry spoke to, outstanding earnings in fresh pork, and solid packaged meats performance as well as a significant turnaround in hog production. The results in our second fiscal quarter include noteworthy items affecting pre-tax earnings. These include favorable mark-to-market derivative adjustments, a favorable adjustment for insurance litigation, charges related to our hog production cost savings plan and losses on early extinguishment of debt. The combined impact of these items is a reduction of \$0.06 per share from our reported \$0.86 to a non-GAAP EPS measure of \$0.80 per share.

Strong operating cash flow facilitated the early extinguishment of \$204 million of our 2011 bonds during the second quarter. Subsequent to quarter end we also initiated a successful tender of \$318 million of the same 2011 bonds. To date, we have retired early, 87% of our 2011 maturity. The early debt retirement resulted in a \$7 million charge to earnings in the second quarter. The just completed tender will result in a similar \$14 million charge in our Q3. Year-to-date we have retired over \$500 million in bonds and are halfway to our \$1 billion debt reduction goal.

Two noteworthy events have occurred early this week that Larry mentioned. First, was the closed sale of our, the sale closed on our Butterball and turkey interests, netting \$167 million in cash. Secondly, we reached a tentative agreement with our insurance carriers regarding the fire at our Patrick Cudahy plant on July 4, 2009. Neither of these transactions impacted second quarter results. The fire insurance settlement will likely be a third quarter event, resulting in both cash and a one time gain of approximately \$120 million. These events bring both of these issues to a close.

Consolidated sales for the second quarter were \$3 billion, an increase of 11% compared to last fiscal year's second quarter. Consolidated sales for the first six months were up 9% over the same period a year ago. Higher prices across the whole pork chain offset volume reductions in hog production, fresh pork and packaged meats. A 24% increase in fresh pork unit prices overcame a 13% quarter-over-quarter decline in slaughter volume due to the closure seven months ago of our Sioux City fresh pork plant. The Sioux City facility represented approximately 10% of our harvesting volume. The net result was an overall 9% increase in fresh pork sales.

Increases in commodity fresh pork prices helped push packaged meat unit sales prices 19% higher. This drove packaged meat sales up \$150 million or 12% quarter-over-quarter on 6% less volume. The benefits of our recent pork restructuring plan has allowed us to shed low margin business during this period, improving the margin mix while increasing our capacity utilization resulting in lower manufacturing costs.

Hog production sales increased 239 million, principally due to higher prices and heavier carcass weights. We marketed 4% fewer animals as a result of efforts to right-size our production system over recent years.

International segment sales were flat compared to the same period a year ago with higher volume offsetting lower unit selling prices. The total company gross margin was 14% up from 6% in the same quarter a year ago. The improvement is driven by the dramatic turnaround in hog production and solid year-over-year improvement in the pork group.

Consolidated operating income increased from \$2 million in second quarter of fiscal 2010 to \$278 million or 9% of sales in the most recent quarter. The turnaround in the hog production group contributed 273 million to this improvement. The \$78 million quarterly earnings in domestic hog production compares to a loss of 195 million in the same quarter a year ago. This was driven by an increase in ISM live price from \$36 per hundred-weight a year ago to \$56 this last quarter. Domestic grazing costs were steady compared to a year ago at \$53. Profit per head was \$18 this quarter.

Our forward position in raw materials will keep hog raising costs in the mid-50s for the balance of this fiscal year. While hog prices fell below break-even levels at the start of the third quarter, we believe hog production will remain profitable overall in the second half of our fiscal year.



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The pork group operating income increased \$15 million or 9%. The group's second quarter operating profits were 189 million, setting a record for second quarter earnings for the group for the third consecutive year. This achievement was driven by 156% increase in fresh pork operating profits. The balanced fundamentals enabled the fresh pork segment to absorb a 54% increase in ISM hog prices and produce record profits of \$16 EBIT per head. These are exceptional fresh pork results. The best I've ever seen on a sustained basis. It's hard to believe though that these margins will not revert back to the norm. The question is what is the norm?

Package meat operating profits declined from record second quarter profits a year ago of \$129 million to \$76 million this quarter. We are very pleased we were able to deliver \$0.12 per pound operating profit, the second best Q2 on record despite absorbing record high raw material prices.

Operating profits reflect mark to market derivative gains during this quarter of \$21 million, mostly associated with open grain positions. International operating profits and margin percentages were flat quarter-over-quarter. Operating results in all countries were profitable. Results in Poland and Animex remain strong. Improvements in Mexico and Campofrio offset declines in Romania.

The increase in quarter-over-quarter corporate segment expenses due to increased pension costs and incentive compensation charges. Equity income in affiliates improved quarter-over-quarter led by increased earnings in both Mexico and Campofrio. Year to date, interest expense for the first six months of this fiscal year totaled \$134 million. We anticipate interest expense in the last six months of this fiscal year to be 125 million.

Depreciation for the second quarter for fiscal 2011 was 57 million and capital expenditures were 38 million. The tax rate for the quarter was 30%, and we continue to project a 30% full-year rate as well.

The story of the balance sheet this quarter is liquidity and debt retirement. We accumulated cash over several quarters in the event that we were to be the buyer of Butterball. Once we received notice that we were the seller that freed up cash to execute the 2011 series bond retirement program.

At quarter end, we had available liquidity of 1.333 billion of which over \$400 million was cash. We continue to generate strong cash flow. We will likely continue to look opportunistically at buying back additional debt in the market. With the retirement of 87% of our 2011 bonds, we have no major repayments of long-term debt until fiscal 2014. Our significantly improved EBITDA and lower debt levels have dramatically improved our balance sheet metrics. This should be well received by the rating agencies. At the end of the second quarter we passed both in currensts test and fixed-charge coverage ratios, improving our financial flexibility.

We are very pleased with the results of the first and second quarters. We have rediscovered that it can be fun to be in this business. What gets us really excited is the prospect of the future, the ability to grow the top line and bottom line. The fundamentals are solid. Worldwide pork supplies are in check, offering continued upward pressure on meat prices as we strive to pass through higher price corn and protein-raising costs. The hog production group cost savings initiative will enhance earnings potential and the competitive structure of the hog production group.

We've also identified mix and yield opportunities accounting for several dollars per head in fresh pork that we can begin to extract. In packaged meats we've gotten operational savings from the restructuring program, and we now endeavor to improve earnings through our new consolidated sales and marketing platform.

Finally, I think focus on cash management and debt retirement will move us to our goal of reducing interest expense run rate by \$100 million per year no later than April of 2012.

Lastly, I'd like to announce the appointment of Tim Dykstra as the new Treasurer of Smithfield Foods. Tim has 30 years of treasury experience within the Chrysler Benz organization. We are excited about the experience he brings to the table, and I hope he gets to meet everyone on this call very soon.

Thank you very much for your attention, happy holidays. Now, back to Larry.

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## C. Larry Pope, President and Chief Executive Officer

Thank you, Bo, and I hope you gather the enthusiasm with which Bo made his report this morning, and I'll tell you that the management team of this organization is flying high, and I'm probably the highest flyer of them all. I sort of ride up and down with the success of this business. When it's bad, I'm a tough guy to be around. When it's good, it's an awful lot of fun to be around me.

And I have to tell my one minute of story of last night and even into this morning. My wife, I'm preparing for this call only when my wife says, don't you have a few hours available to go see an eight-year old play basketball? And I would tell you, I said, well tomorrow is going to be a fairly easy day on an earnings call. I'll go. And last night was a wonderful night for me and to finalize that, I walked out this morning without my briefcase. So I came to this call this morning with absolutely nothing, not even a copy of the press release. So much of what I'm telling you this morning is from recall and memory because I don't have a lot of papers; they're all sitting on my desk at my house. But it's easy when the management team is performing at the level they are, and I would be remiss not to make some comments about this management team who I am extremely proud of.

From the pork group team led by George Richter, but it's not just George. George has done a terrific job, but he's got a team, a newly appointment president of Farmland, Mike Brown and Tim Schellpeper running the packing company, and Joe Sebring running the John Morrell group. Those guys and their VPs are doing one heck of a good job. They have very solid management teams. They've executed this restructuring almost flawlessly. They went to a SAP computer environment where many people go through major hiccups. I don't think you've heard us one time on the call in the last two years make much reference to the SAP except that we were getting it done. That is a strong statement about the commitment of this management team and the talents that are within the IOC structure.

You go to the hog farm operations, we've got equally good talent led by Jerry Godwin with Terry Coffey in the east, and Steve Pullman in the west. These guys are dead-on professionals. They are looking at this business in ways that would impress anybody on this call, and they're working so closely with the meat processing side of the business. Both are connected at the hip at this point, both making the other's business better.

Finally you look across that little pond called the Atlantic Ocean, and Darek Nowakowski who's running Poland; I mean is setting new numbers every single time he reports in. And our Mexican business run by Carlos Patron doing an incredibly good job. All of this – I say this because many of these foundation points were put in place sometime back, and the losses that we were reflecting were the result of just an oversupply of hogs and a grain market that was going crazy on us here.

The business has been moving forward; the management teams here deadily solid. And we are having an Investor Day on January 18, and I would encourage all of those on this call who can come to be there. You will get to meet some of these people if you haven't met them in the past. I think you will be impressed. We're going to spend a good portion of that discussing with you some of our sales and marketing plans that we don't talk so much about. Again, I think it will be time well spent. We're excited about seeing you, we're excited about telling you about the future of this company, and I think it'll be a day well spent if you'll invest that day to come see us, and we may even give you some free food at lunch time.

Now looking forward to the business, the management teams are focused. I think as Bo said, there's lots of opportunity in fresh pork. We may not maintain these margins we had in the last quarter, but we might very well have some very strong and solid fresh pork profitability for the foreseeable future well beyond historical levels.

Our packaged meats business, not a particularly good quarter, not a particularly good quarter. We expect to do better in the third quarter than we did in the second quarter. We're coming into our time of the year. I think that part of the business has a lot of opportunities that we were missed because we missed the sale or it was priced at a point our competition that we simply wouldn't take the sale. Live production, the cost improvement program is going to help us. Grains have stabilized now at a price I don't like. \$5 plus corn I don't like, but it does appear at this point it stabilized.

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We have put some hedges in place to ensure that we don't get any runaway costs in the event these grains run away from us. I believe there's an opportunity for us to buy some more grain at lower levels. I believe that's going to happen. But if it doesn't we've still got the opportunity to hedge ourselves if we see it moving away from us, we'll hedge it to protect ourselves. But we're leaving ourselves some opening to buy this grain at lower levels if that happens, which we think is going to happen.

The futures markets next summer are well into the 60's as that does present a profit opportunity for us. So as Bo said we expect hog production to be profitable to the second half. We look forward into – what we can see into fiscal 2012 – fiscal '12 in the summer, it looks at this point like that's profitable as well and solidly profitable. So hog production doesn't look like it's going to drag us down and in fact it's going to be part of the profit going forward. And even, even if grain at these \$5 levels, we can cover it. Internationally, we're doing well in certain places and Romania's still got some opportunity that we need to work on.

Finally, I think Bo made the point we've paid down \$500 million in debt. We're still looking for another \$500 million. We're still looking for that \$100 million in lower interest costs. We aren't – this quarter doesn't show much of it, but I assure you it's coming. And finally, out of Washington, it does appear that rational heads are starting to focus on the ethanol policy. For the first time ever, it appears that people are looking at the impact of ethanol in various sectors of this economy and the environment and the pressures associated with the budget as well as the pressure from special interest groups are beginning to get people to re-look at this policy.

I don't know where it's going to come out in this tax cut bill that's about to be voted on, but it looks like the credit's going down. If anything, it's going down. All the pressure on ethanol appears to be reduction, reduction and elimination. That's good for our business. Ethanol structurally changed the pricing of corn, and this will structurally help the pricing of corn and help our live production side of the business as this policy winds its way in the opposite direction it seems to have been over these last several years. And that's the first time I can make that statement ever, and that gives me a lot of confidence about where the future in live production, which has driven this business, has now been dragging us down. Maybe live production can once again be an important part of the profit stream of this company.

With that being said, I'm optimistic. I'm more optimistic than I have been in a very long time. I've never seen a management team in my 30 years as focused on margin improvement and cost improvements as I have today in spite of the fact that we're reporting a record quarter. No one in this company is even close to being satisfied. Our numbers are not where they need to be, and I promise you we are sitting back on our laurels enjoying this. I get to brag for a few minutes this morning, but I assure you we're right back at the pass as soon as this call is over.

With that, Keira, we'd welcome any questions.

## Keira Ullrich, Director of Investor Relations

Thank you, Larry. In order to provide an opportunity to as many analysts as possible to ask questions, we request that you ask only one question. If you have another question, please get back into queue. Operator, please open the line.

## Q&A

### Operator

[Operator Instructions] Our first question comes from the line of Christine McCracken, from Cleveland Research. Please go ahead.

<Q - Christine McCracken>: Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Good morning, Christine.

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**<Q - Christine McCracken>**: Congratulations. Nice quarter.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Thank you.

**<Q - Christine McCracken>**: You know, Larry, without going into too much detail, it seems like you're very optimistic on the outlook for corn. Tied to some possible policy changes in Washington relative to ethanol, but there seems to be still, when I talk to investors, quite a bit of concern relative to the prospects for it to move even higher, and what that might mean once you get out past some of this coverage. You suggested that you could probably buy more on dips. Certainly that's out there, but there's still quite a bit of uncertainty I think when it comes to South America. There's still a 12.6 million gallon mandate for Ethanol next year. Maybe you can just talk about what happens if corn doesn't go down? Is it your expectation then you'd get the pricing passed through to the consumer? How do you expect to offset that?

**<A - C. Larry Pope, President and Chief Executive Officer>**: Well, Christine, I think we had the conversation for two years about when the losses were huge on the production side of the business, about the fact that we've got to at some point price \$4 corn into this meat. I think the fact that hogs have moved up dramatically and the cutout moved up even more means that we have at this point priced that \$4 corn in. I've said too many people we've not priced \$6 corn into the retail case at this point, and that would be another time we'd have to go back and deal with pricing pressures and hog losses.

However, there's a risk that this – we could get a runaway corn situation. You said South America and I would have said China but there is always that risk that we could have a short crop and the situation that could drive corn again. What we're going to do is stay up as close as we can to this thing and not give us that big exposure. If we get a runaway this summer, I think we will have locked our corn in well before that runaway occurs, but we'll have to deal with it again. I mean that's the reality of corn. We'll have to price it again. I think there's an equal risk that this thing could go the other direction. So that's why I'm sort of playing down the middle with corn.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Well, I think this is a different scenario than we saw two years ago because frankly we don't have an over abundance of cash flow

**<A - C. Larry Pope, President and Chief Executive Officer>**: That's true by the way.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Which will help, I think create an environment where we will be able to absorb additional increases through the value of the meat. Not all of it but we don't have the downside risk that we had two years ago.

**<A - C. Larry Pope, President and Chief Executive Officer>**: We don't have cheap hogs and high priced grain. We could have high priced grain with high priced hogs and even if these prices where hogs are today, Christine, I know you're aware, the world market for hog prices outside the U.S. are dramatically higher. In China, it's close to \$1, Russia I understand is \$1. I mean Europe's \$0.70, Mexico's \$0.70, so there's a huge price difference between U.S. and foreign pork and so I think Bo makes a good point and I don't see big expansion going around the world that's going to drive pricing around the world back down. If anything there's probably a little bit of reduction going on.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Our major export competitors in the form of Canada and the E.U. are both reducing their herds as we speak and every indication is that there is no expansion here in the United States. So I think the fundamentals are very favorable.

**<Q - Christine McCracken>**: Thanks.

## Operator

Thank you and our next question comes from the line of Akshay Jagdale from KeyBanc Capital Markets. Please go ahead.

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Bloomberg Estimates - EPS  
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**<Q - Akshay Jagdale>**: Congratulations. Thanks for taking the question. I wanted to ask about just you alluded to normal profitability. If you look at a vertically integrated model in that hog production and pork processing together, what do you think normal margins are and why is there such a disconnect in the processing side today relative to history? And on the hog production side you're also making above normal profits today. Can you just help us understand the balance and where you think that plays out over time?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: I think going back to my prepared statements, I indicated that I think there will be some reversion to the norm in terms of these outstanding fresh pork margins that we've had. The question is I think truly we probably have reached a resetting point in terms of what the structure will be for fresh pork. I don't know what that norm is. It used to be that we could make \$3 to \$5 a head, we've had some weeks where we've been in excess of \$20, \$25, \$30 per head. I don't think that's going to continue, but I'm not sure when it goes back to normal whether that's a \$6 to \$8 normal or whether that's a \$5 to \$6. We don't know, so I'm not quite sure I can intelligently answer your question because we don't know all the variables, Akshay.

So I think that we maintain still the normal ranges we've had for packaged meats in that \$0.10 to \$0.14 range. I think that we'll probably have some appreciation from the old \$3 to \$5 norm for fresh pork, and I think that we're still looking in that \$10 to \$15 range as far as hog production is concerned.

**<A - C. Larry Pope, President and Chief Executive Officer>**: I'd add onto Bo's comment that one of the things that's really helped this complex is the export markets and the pricing in the export markets where the cheap, a weak dollar policy out there, and the price of pork around the world. I think the export opportunities are going to be very good for the industry. They have not as late been as good for us only because we've got so many good uses for the product domestically, but the industry's done very well off exports, and I do see that continuing because I don't see the weak dollar policy changing, and I don't see expansion going on. As you get a little bit of a recovery around the world that's going to increase international demand and the U.S. is the best place in the world, one of the best places in the world to raise pork. And I think the opportunities on the export market are going to continue to give us good pricing discipline on fresh pork in this country.

**<Q - Akshay Jagdale>**: Okay. I'll pass it along. Thanks.

## Operator

Thank you. And our next question comes from the line of Ryan Oksenhendler from Bank of America, Merrill Lynch. Please go ahead.

**<Q - Ryan Oksenhendler>**: Good morning, guys. Congratulations.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Good morning. Thank you.

**<Q - Ryan Oksenhendler>**: I'm just wondering, can you talk a little bit about, you know you talked about supply but about demand actually in the U.S.? It sounds like the export market's really good, but we've had it looks like a little bit more production in the U.S. than expected because hog weights have picked up over the last several weeks, but pork prices actually remain pretty resilient. So could you just talk about what you're seeing in the different channels on the demand side in the U.S.?

**<A - C. Larry Pope, President and Chief Executive Officer>**: Ryan, I would say to you the most, the clearest indication of where demand is, is the fact that we're killing the hogs and it's not going in the freezer. In fact the pork pricing holding – I think pork is still a reasonably priced product. You can compare that to where beef is. Pork is moderately priced so it's got lots of demand. We've seen the food service stabilize. Our declines that we've had in volume are on the food – are on the retail side. And that's very price sensitive and that can come and go based upon how things change quickly. On the food service side, it continues to be very strong. And so I'd say across the board demand is very solid and domestically, very solid.

**<Q - Ryan Oksenhendler>**: All right, thanks, guys. I'll pass it on.

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## Operator

Thank you. And next, we'll go to the line of Farha Aslam from Stephens. Please go ahead.

<Q - Farha Aslam>: Hi. Good morning.

<A - C. Larry Pope, President and Chief Executive Officer>: Morning, Farha.

<Q - Farha Aslam>: Congratulations on a great quarter.

<A - C. Larry Pope, President and Chief Executive Officer>: Thank you.

<Q - Farha Aslam>: Looking out into next year do, you think in fiscal 2012 given where the hog market is and where grain prices are that you could hit that sort of normalized number in hog production that you talked about in terms of \$10 to \$15 pre tax?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Farha, that's going to be tough. I think we will revert to that norm over time but with these very, very high price levels I think we're going to – we're going to see some thinner margins than you might if we were in the typically in the \$50 range as far as pricing is concerned.

<Q - Farha Aslam>: And just to follow-up on the fresh pork and packaged meat, do you think that positive trends can continue on in the second half of this year and into the early part of next year?

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Yes, we do.

<Q - Farha Aslam>: Great. Thank you.

<A - C. Larry Pope, President and Chief Executive Officer>: Farha, I have to tell you I think the packaged meats business is going to be good and fresh pork is going to be good. I've got – well, Bo and I may even differ on how good it will be. I think fresh pork will be good compared to history. Whether it will be quite as good as this quarter I don't know, maybe not. But it will be darn good from a historical standpoint. I think packaged meats will be better. We've had a bad packaged meats quarter because of the rapid rise of raw material costs.

<Q - Farha Aslam>: And so you're thinking that the second half profit per pound can be up?

<A - C. Larry Pope, President and Chief Executive Officer>: Yes.

<Q - Farha Aslam>: All right. That's very helpful. Thank you.

## Operator

Thank you. And next, we'll go to the line of Diane Geissler from CLSA. Please, go ahead.

<Q - Diane Geissler>: Morning.

<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>: Hi.

<A - C. Larry Pope, President and Chief Executive Officer>: Morning, Diane.

<Q - Diane Geissler>: Congratulations on your quarter.

<A - C. Larry Pope, President and Chief Executive Officer>: Thank you.

<Q - Diane Geissler>: I guess I'm still a little – I'm just questioning your statements about the weak dollar policy, which obviously helps on the export side also generally leads to higher prices on U.S. denominated commodities like corn and soybean meal. And given where I see futures on lean hogs versus the grain inputs, I mean I've got you moving into a loss position in fiscal '12. It sounds like you're probably a little bit more optimistic than I am. So I guess if you

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could help me figure out where I'm off in terms of what your expectations are about hog raising in 2012?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: It's almost impossible to guess what your model says.

**<Q - Diane Geissler>**: I'm just using futures.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Well futures we would say that the futures at least as far as our cost structure is concerned are indicating that we're going to have a profitable operation in our hog production next year. It's not certainly setting records but it is positive, and we think that at these higher priced corn levels that we're doing a pretty good job there.

**<Q - Diane Geissler>**: So you think it's already, the corn where it is today is already priced into where futures are on the hog side?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Corn – can you repeat that question? I'm not sure I understand.

**<Q - Diane Geissler>**: Where corn prices are today, you think that's already priced into where futures are today on the hog side?

**<A - C. Larry Pope, President and Chief Executive Officer>**: I think they're independent of one another, Diane. You just look at them.

**<Q - Diane Geissler>**: Well generally, I guess what I'm saying is generally what you see happen when grains rise is the hog market eventually has to take that into account because there are expectations that get built into the curve as to the number of animals that get raised, right? I guess what I'm saying is do you think the curve has already adequately priced in a higher grain environment?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: I think that we're projecting profits for hog production sector for next year.

**<Q - Diane Geissler>**: Okay. Terrific. Thank you.

## Operator

Thank you. Next we'll go to the line of Heather Jones from BB&T Capital Markets. Please go ahead.

**<Q - Heather Jones>**: Good morning. Congratulations on the quarter.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Thank you.

**<Q - Heather Jones>**: I had a quick question on the fresh pork division, which the results here were stellar. In the past you all have had, over the past year or so, you've had improved pork results, but there's still been a fairly significant gap between your fresh pork margins and some of your public peers. This quarter that gap closed, and I guess I'm just trying to get a sense of what happened during the quarter to drive this kind of improvement? Because for the market last quarter, fresh pork margins were strong as well, so it wasn't like there was that much improvement sequentially, but yet your sequential margins jumped like 600 basis points. So I was wondering what drove that? And how sustainable is that relative performance?

**<A - C. Larry Pope, President and Chief Executive Officer>**: Heather, let me talk a little bit about our situation, and then I'm going to let Bo as well have some input here. It'll take both of us on this one. We certainly compare ourselves to our competitors as best we can given the information we think we have public plus what we think we know privately, how many they kill, what their processing levels are and things like that. That's information you may not quite have, and we have been certainly impressed with how our competitors have been able to achieve margins that we haven't been able to achieve because I think our fresh pork competes very competitively with theirs. There were some

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opportunities in our operations to improve, particularly we had some lighter-weight hog situations in the East, which once the fall hog run started they came as a result of our live production side of the business that the rates moved up and our P&L moved up dramatically. As well as we are doing some very heavy benchmarking across our operating plants, and again I'm going to give credit to the management team. They have spent a lot of time – and I mean we have tightened this thing up dramatically, plus we shut down Sioux City, so we don't have that commodity fresh pork bringing our numbers down. We've got much better use for those.

All those say that our base of fresh pork profitability came up relative to our competitors. Now with that being said, our competitors I believe have some pricing arrangements relative to the way they buy hogs that we really don't have. We buy them from ourselves, so we don't have window contracts as an example because we buy them from Murphy-Brown. They may have had some opportunities when the live hog market was very strong through their window contracts to have got some benefits associated with that. That's our estimation, but I don't know that factually to be true, but I think that's right.

And as that has – as hog prices come back down that window opportunity declines for them, it comes back to the market. As it comes back to the market it comes back to us. So I think those two together have hopefully explained some of that to you, but importantly as you take away from it, I think structurally our fresh pork business has improved. Bo, do you have any comment?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Yes. I think as Larry mentioned, the Sioux City closure, and if you think of it just from a mathematical perspective that was our worst performing plant. So merely taking that out of the mix increased our competitive position on that fact alone. I referred to it in my comments that we've identified, that Larry talked about, identified several dollars in improvement that we can make from the sales area as well that's come out of this internal analysis. And finally we've increased our hog weights as much as five pounds per head.

Those three things in terms of just the mathematics of closing Sioux City, the additional opportunities we've seen in terms of mix of sales of product, and what has happened to us on the other part of our business, it says that we've closed the gap, that it probably is a structural closing or a structural catch up that we've done, and we think it's here to stay.

**<Q - Heather Jones>**: Okay. So going forward, adjusted for the changes in how they buy hogs et cetera, we should see much more narrow gaps between yours and their fresh pork results going forward is your expectation.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: It'll be choppy but that trend is correct.

**<Q - Heather Jones>**: Okay. Thank you very much and congratulations again.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Thank you.

## Operator

Thank you. And next we'll go to the line of Lindsay Drucker-Mann from Goldman Sachs. Please go ahead.

**<Q - Lindsay Mann>**: Hey. Good morning, everyone.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Good morning.

**<Q - Lindsay Mann>**: Just a quick question on your hog production outlook. You mentioned hog production you expect to be relatively flattish next year. Do you similarly expect for pork production, total pork production including productivity and weights to be flattish?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Well I think that we're driving towards heavier weights. That's a lot of the, that has to do with the cost saving structure initiative that the hog

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production people have put into place. I think as far as supplies are concerned, we're seeing a couple of percent more on a weekly basis in terms of slaughter level. I'm not quite sure whether that's just coming out of a lot of heat for the summer, and we pushed hogs back but we still see no expansion both domestically, we see a reduction in hogs in Canada so I think that that will probably slow down any importation of feeder pigs. So I think we continue to see a very good balance domestically for the next 12 months to 18 months.

**<Q - Lindsay Mann>**: Sorry, go ahead.

**<A - C. Larry Pope, President and Chief Executive Officer>**: It's surprising to see what this small amount of really overall because the hog numbers are down a bit but the weights are up. And then there's this sort of flat production volume. It just shows you how sensitive this whole business has been to the volume that's coming at it. I tell you that I've been surprised where we are from a pricing standpoint but we don't see a lot of expansion going on here so, there's no reason to believe unless productivity improves on the farms, not just ours, the industry farms, there's not reason to think that these hog numbers are going to grow very much I don't think. I think we made be able, maybe the industry can put a little more weight on them, maybe. But I don't see the numbers. I don't think the numbers will.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Well, high priced corn will temper some of the weight.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Well, that's right because as you go to the higher weights, the feed conversion drops down so the incentive to put on heavier and heavier weights reverts as a negative. The heavier the hogs get it's not as profitable so they'll have a tendency not to add the weight.

**<Q - Lindsay Mann>**: Okay then, that's really helpful but just to clarify, Bo, with one of your comments. So your efficiency improvement initiatives in hog production, can you quantify in terms of yield improvement, how much that should layer on to your own production and I think it's over a string of a few years where it will take place but how much yield improvement you'll get next year and then over the next couple of years?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: I'm not sure we necessarily would break it down in terms of yield improvement but I think our initiative indicates that we'll be able to extract about \$2 per hundred-weight in terms of cost that we'll eliminate once we're fully initiated in the program.

**<A - C. Larry Pope, President and Chief Executive Officer>**: I think your question is, were you asking the question whether there would be more hogs produced?

**<Q - Lindsay Mann>**: Can you grow fatter hogs with the programs you have in place? Can you grow them faster?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: I would say, we wouldn't call it a fatter hog, we'd call it a bigger hog but yes we can grow a bigger hog and that's part of the improvements. We probably have produced a smaller hog to some degree, 1% to 2% than the rest of our competitors because of where we're located and things like moratoriums that we have in North Carolina that don't allow us to expand our farms, so some of the things we're doing is we reduced the sow numbers, reduced the overall density of pigs in these areas, it gives us more time to grow. And so we'll produce heavier pigs, fewer but heavier pigs and offset in large part many of the reductions in head count by additional weight running through the plant as to our production operating.

**<A - C. Larry Pope, President and Chief Executive Officer>**: I think Bo's point is exactly that. I think we'll add about 2% or so, maybe even 3% to the size of the hogs, but you will also see the number of hogs we produce also decline probably 2% or 3%. So it may be lesser number, but they're going to be bigger hogs, and it will be more profitable.

**<Q - Lindsay Mann>**: That's helpful. Thanks, guys.

## Operator

Thank you. And now we'll go to the line of Tim Ramey, from Davidson. Please go ahead.

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**<Q - Timothy Ramey>**: Good morning. Congratulations. Bo, I think the thing I was most impressed about was the cash generation and the retirement of debt in the quarter, but it does bring to mind the fact that this company 10 years ago, 12 years ago bought a lot of cheap assets at a crisis level and then proceeded to lever them up, and then have its own crisis repeat two years ago. And I'm just – there's a pretty ebullient tone today to the call, but what I'd love to hear you say is we're not going to do that again. We're going to keep this thing at a level that we can handle the cyclical lows. Do you have any kind of big picture comments on that?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: I think Larry has been very clear over the past two years that we are not going to sacrifice the balance sheet in any circumstance for what may be very short-term opportunity. We are committed, Tim, to reducing our debt level another \$500 million over the next 18 months. Our goal is to bring down our interest expense, and we think that's very appropriate in what will likely be more volatile times going forward. And it's what was considered a conservative balance sheet perhaps 10 years ago today would be unthinkable. So I think we as well as others in our industry are trying to reduce debt to be able to withstand the volatility that will likely come in our business over time. But we are very respectful of the balance sheet going forward.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Tim, let me – I've got to react a little bit to this. I think Joe Luter went out and bought some businesses at some very favorable pricing, and I think built one heck of a good company here. So I think that that part about buying cheap assets and leveraging them up and jeopardizing the business sort of gets my blood pressure going pretty good. I think Joe Luter built one heck of a good business.

Now what I think did happen, we did have a grain run-up in the world that had a huge impact on this business. We had a great meat business here that needed some fine-tuning and the restructuring just because we bought those cheap assets that needed to be – some of those rationalized, and the pork group management have done a terrific job of getting all that consolidated and money – I'll admit money was cheap at that point in time. It was the strategy at that point in time, and in fact we were getting pressure from investment bankers to increase the leverage if you can believe such lunacy but that's the case.

And the world has really changed, and we react to the times, and I think the fact that we got some of those assets at those prices have allowed us to deliver the profitability we got today. We did need to pay some of that back. I think Bo and his finance team have done a terrific job of managing through this and getting this balance sheet back in an absolutely horrible time to do those kinds of financings. They did a great job, and I give them accolades. And I think today we've got a company that we understand how to manage it. I think we'll manage it fairly conservatively. I think you'll be pleased with the way anything we go forward from a financing standpoint will be done.

I think you as investors will be pleased about that, and I think we're positioned to be outward looking. That doesn't mean we won't be on the acquisition trail, but we can look forward as opposed to just looking internally.

**<Q - Timothy Ramey>**: Terrific. Thanks a lot.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Thank you.

## Operator

Thank you. And now we'll go to the line of Christina from Deutsche Bank. Please go ahead.

**<Q - Christina McGlone>**: Good morning.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Good morning.

**<Q - Christina McGlone>**: Larry, just to focus on packaged meats. When you talked about losing some volume in the quarter and that you're going to get it back, does that mean that profit per pound will go below \$0.12? Or the fact that the underlying raw materials are not surging like they were in the October quarter that you could get the volume back and still have the \$0.12 per pound or within that range?

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**<A - C. Larry Pope, President and Chief Executive Officer>**: I think you heard me tell somebody else that I thought packaged meat margins would be up for the third quarter in the second half. That certainly doesn't mean we're on the hunt for cheap sales. We've done that we've been to that movie and don't like the way it comes out. I think that what we've done is we've positioned some of this pricing, and I think you'll see us go back and sell our way back into that volume with the programs we got surrounding that trade programs, and marketing programs that – I think we'll sell our way into that. No, we're not going after less than \$0.12 margins at all.

**<Q - Christina McGlone>**: Okay and just a follow up. So should we still look for volumes to be down or flattish but just not as much as 6%? Or how should we think about volumes?

**<A - C. Larry Pope, President and Chief Executive Officer>**: I think that the second half – we will clearly, I think, not be down 6%. I think we may still be down a little for the year. It's a little hard to tell on some of them because of where you get some of the pricing opportunities, but I think it's going to be a very smallish down number, and if a little bit of things go in the right direction it could be positive in the second half.

**<Q - Christina McGlone>**: Okay. Thank you.

**<A - C. Larry Pope, President and Chief Executive Officer>**: You're welcome.

## Operator

Thank you. And now, we'll go to the line of Vincent Andrews from Morgan Stanley. Please, go ahead. Hello, Vincent Andrews, your line is open. Do you have your mute button on?

**<Q - Vincent Andrews>**: Oh hey. Sorry about that. Congratulations, on your quarter obviously. Larry, maybe my question for you is just you sort of thrown out there that you think there's a scenario where corn prices go down. I'm just wondering if you could elaborate on that a little bit. Maybe where I'd direct you would just be your comments on the ethanol policy and the tax credit in particular. I guess where I'm a little confused on that is just when I look out at ethanol production and blenders' margins, it looks to me like blenders would be using ethanol with or without the tax credit and with or without their renewable fuel standard just based on where gasoline, ethanol and corn prices are. So maybe you could kind of address all that?

**<A - C. Larry Pope, President and Chief Executive Officer>**: Good. I hope your comments make it to Washington. They don't need to credit then. I'll let you call and make sure your congressman knows that. They don't need a federal subsidy to make it work.

I guess we'll have to see how all this corn settles out. I don't think we're going back to \$4 corn but if it drops a bit here. I think there's the opportunity to drop a bit here. It's difficult to go lock in corn at these elevated levels, fully lock yourselves into the cost structure. We've got some thoughts we have relative to where we think this corn is going to settle out in world markets, and we still think there's some opportunity for some downward movement there. And if that be the case again I'm talking about a modest move down not big money.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: And typically we're coming into the end of the year.

**<A - C. Larry Pope, President and Chief Executive Officer>**: That's right.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: And you will have farmers that are making their own tax decisions in terms of when they sell their corn whether it be on the 30 of December or the 2 of January, so you may see – we anticipate, typically you'll see a flush of corn that'll come out after the first of the year in terms of farmers selling at a local level, which we would look at as buying opportunity.

**<Q - Vincent Andrews>**: Okay. So it's pretty much just a technical piece. Thanks, very much. I appreciate it.

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## Operator

Thank you. And now, we'll go to the line of Bryan Hunt from Wells Fargo Securities. Please go ahead.

**<Q - Bryan Hunt>**: Most of my questions have been answered so it's just a few housekeeping and then one question. Could you tell us what your cash and total debt were at the end of the quarter?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Cash was \$425 million. We've used 400 in my prepared comments and debt was 2.8. Net debt was 2.4 million.

**<A - C. Larry Pope, President and Chief Executive Officer>**: So gross debt is 2.8 and net debt is 2.4.

**<Q - Bryan Hunt>**: Yes. Great. When you – going back to your comments on hog production, you mentioned the opportunity to take a \$100 million out of that cost structure. I was just wondering if you could just talk about CapEx in the context of taking that cost out as well as the timeline in getting those costs.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: The timeline, it's longer than we have in the manufacturing process. We're probably looking at two to three years for the total benefits to come into play. And again, we're looking at that \$80 million to \$100 million cost savings level. If we look at the CapEx required to get there and the amount that we have in terms of one-time charges in total we had on a quarter to-date CapEx of \$12 million for the program. We're anticipating another \$6 million in CapEx for that program for the balance of the year remaining after that. And then next year, it will be \$69 million.

**<A - C. Larry Pope, President and Chief Executive Officer>**: So it's a total of \$86 million I think in CapEx of which we've spent 17, Bo?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: We've spent a total of 12 million so far.

**<A - C. Larry Pope, President and Chief Executive Officer>**: 12 million. So we've spent of 86 I think it was \$86 million in total CapEx. Then I thought we had another \$40-ish million in one-time charges. Isn't that right, Bo?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: That's correct. A total of.

**<A - C. Larry Pope, President and Chief Executive Officer>**: And in fact, I think 13 – what came through the quarter?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: 15 million for the quarter and we anticipate another 16 million in one-time charges. These are associated with termination of several of the contract grower agreements and modification of those incentives for those people to modify.

**<A - C. Larry Pope, President and Chief Executive Officer>**: So overall it has about a 1.5 year pay back. Call that \$100 million of profit improvement and \$150 million of CapEx and one-time charges.

**<Q - Bryan Hunt>**: And then lastly looking at cash flow has been so strong in the last couple months. And it sounds like in the current quarter with your proceeds from your insurance policy as well as the asset sale from Butterball, you'll be sitting on a very large pile of cash. Is there any incentive to accelerate CapEx given the cash flow in the business and the cash you're generating from other means?

**<A - C. Larry Pope, President and Chief Executive Officer>**: Bo can speak to his own, but I will tell you that the operating companies are well aware that the approval process for capital expenditures, which has been pretty tight for the last two years that that door is open. So we are not refusing capital expenditures that are coming up from the IOCs. I'm not going to spend stupid money here, but any CapEx that makes sense we're going to approve.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: We're very focused on return on invested capital with all of our CapEx projects. Probably for this year we will not achieve depreciation for the third year in a row in terms of capital spending. But we believe that the capital that we are employing will have significant

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 Company Ticker: SFD US  
 Date: 2010-12-09  
 Event Description: Q2 2011 Earnings Call

Market Cap: 3,228.96  
 Current PX: 19.45  
 YTD Change(\$): +4.26  
 YTD Change(%): +28.045

Bloomberg Estimates - EPS  
 Current Quarter: 0.509  
 Current Year: 1.863  
 Bloomberg Estimates - Sales  
 Current Quarter: 3127.889  
 Current Year: 12204.538

benefits to our return on invested capital.

**<A - C. Larry Pope, President and Chief Executive Officer>**: But remember, just two years back we were spending at nearly twice depreciation so we had made a lot of capital investments overseas and in plants back here, a brand new plant in Kinston, North Carolina. We've made CapEx that are now beginning to bare fruit. That plant has taken several years to get ramped up is now running and I think it's about 85% or so and where it's running at that plant is now becoming very profitable.

So we've made some CapEx investments and part of this was to rationalize some of these plants down, these plants that were underutilized and rationalized those down, and we spent the capital to do it that we needed, but I don't think we're missing any opportunities by holding back CapEx.

**<Q - Bryan Hunt>**: And the gain you mentioned on the insurance recovery of 120 million is that equal to the cash coming in?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Approximately yes.

**<Q - Bryan Hunt>**: All right. Thank you.

**<A - Keira Lombardo, Director, Investor Relations>**: Operator, we have time for one last question please.

## Operator

Thank you. And then we'll go to the line of Reza Vahabzadeh from Barclays Bank. Please go ahead.

**<Q - Reza Vahabzadeh>**: Good morning.

**<A - C. Larry Pope, President and Chief Executive Officer>**: Good morning.

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Morning.

**<Q - Reza Vahabzadeh>**: On your hog margins, can you just maybe elaborate on a near-term outlook? I know your grains have good levels, but then live hog prices have weakened. Should we expect weaker hog margins in the second half than the first half? Or is it still in the black?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: I think if I go back to the remarks I made we had a situation where hog prices fell at the beginning of the third quarter, and actually hog margins were negative for the first few weeks. But we're anticipating that we'll be black for the second half of the year.

**<Q - Reza Vahabzadeh>**: I see. But lower than the second quarter or about the same?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: Lower than the second. Probably lower than the first half.

**<Q - Reza Vahabzadeh>**: Got it. And then on pork margins, I think you mentioned your long-term normalized profit per head of \$3 to \$5. And how much higher do you think you are in this new paradigm?

**<A - Robert W. Manly, Chief Financial Officer and Executive Vice President>**: I think I've indicated that we don't know where the new paradigm is. We don't know whether that's \$6 to \$8, \$3 to \$5, we don't know. We'll have to wait and see where it shakes out.

**<Q - Reza Vahabzadeh>**: Got it. Thank you much.

## Operator

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At this time we'll have to end the question answer portion, and we'll turn the call to Larry Pope for closing remarks please.

### C. Larry Pope, President and Chief Executive Officer

Thank you very much for listening this morning. We are extremely pleased, and as you can tell for the first time in a while I'm bullish on this business and I'm bullish on the things, the strategy we put in place over the several years. You're seeing that again and again and again in the pork group. I think we've got good things coming, and a lot of production on this side of this business as well as overseas and finally some financial standpoint with the balance sheet.

I think this company is positioned to do very well and relative to anybody and our competitors in particular, I think we will be taking market opportunities and continue to deliver very solid results going forward, and I'm very optimistic about this business. I think it's very likely we'll have a record year for this year given where we are to date, and I think we've got good times ahead. So thank you for riding through the tough times, I think we're getting the benefit of the upswing. And we wish you all a happy holiday season. Thank you.

### Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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